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FISCAL IMPACT STATEMENT

LS 6673

BILL NUMBER: HB 1197

NOTE PREPARED: Dec 22, 2005

BILL AMENDED:

SUBJECT: Distribution of Sales Tax on Gasoline and Fuels.

FIRST AUTHOR: Rep. Davis

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill requires the Department of State Revenue to determine for each calendar quarter the amount, if any, to be transferred from the State Gross Retail and Use Tax on gasoline and special fuel to the State Highway Fund and the Local Road and Street Account. The bill also provides for the amount of the transfer to be based on a percentage of the difference, if any, between: (1) the most recent statewide average retail price per gallon of gasoline and special fuel; and (2) the average retail price per gallon of gasoline and special fuel as of July 1, 2004. This bill provides for 70% of the amount to be transferred to the State Highway Fund and 30% of the amount to be transferred to the Local Road and Street Account for distribution to counties, cities, and towns. The bill also requires the Auditor of State to make the first transfer before August 1, 2006.

Effective Date: April 1, 2006; July 1, 2006.

Explanation of State Expenditures: This bill will cause an increase in administrative costs to the Department of State Revenue (DOR) and the Auditor of State. However, it is estimated the provisions in this bill can be implemented within the existing level of resources available to these agencies.

Explanation of State Revenues: *Summary:* This bill will shift Sales Tax revenue from the state General Fund to both the State Highway Fund and the Local Road and Street Account. The amount of revenue that will be shifted is dependent upon the quarterly change in the statewide average retail price of gasoline and special fuels as well as the number of gallons purchased each quarter.

The table below shows the estimated shift in revenue at different percentage increases in gas and special fuel prices.

Annual Revenue Shift at Different Percentage Increases in Fuel Prices.			
Fuel Price Increase	From General Fund	To Highway Fund (70%)	To Local Road & Street Account (30%)
5%	(\$14,907,412)	\$10,435,188	\$4,472,224
10%	(\$29,710,267)	\$20,797,187	\$8,913,080

It is estimated that had this provision been in effect for FY 2005, there would have been a shift of \$15.5 M from the state General Fund. Those funds would have then been distributed \$11 M to the state Highway Fund, and \$4.5 M to the Local Road and Street Account.

Background Information: The bill requires that the DOR determine the average retail price of gasoline and special fuels as of July 1, 2004, before the addition of state Sales Tax, state gas tax, or federal gas tax. The DOR is also required to calculate this average price before January 10, April 10, July 10, and October 10 each year.

The bill requires the DOR, for each calendar quarter, to determine the amount of Sales Tax collections that were attributable to the increase in gasoline and special fuel prices for that quarter. The DOR is required to notify the State Auditor of this amount, and the Auditor is required to transfer 70% of this amount to the State Highway Fund and 30% of this amount to the Local Road and Street Account. The bill requires that this amount come solely from the Sales Tax collections which are allocated to the state General Fund.

An illustration of this calculation follows:

2nd Quarter of 2006 average price (-) July 1, 2004, average price = Difference in average prices.

Difference in average prices (X) the number of gallons sold for the 2nd Qtr of 2006 = Sales for 2nd Qtr.

Sales for the 2nd Qtr (X) 6 % = Sales Tax collections attributable to the increase in gas prices.

The Sales Tax collections attributable to the increase in gas prices are then transferred from the state General Fund and distributed 70% to the State Highway Fund, and 30% of to the Local Road and Street Account.

Sales Tax Revenue Issues: It is currently unknown what effect the increase in gasoline prices will have on total Sales Tax collections. Increases in gas prices cause consumers to spend more of their disposable income on gas, which is taxable, and less on other items, which may be either taxable or nontaxable. These shifts in spending, along with a potential decrease in gas consumption as prices increase, suggest that Sales Tax revenue will not rise in proportion to gas price increases. Based on some preliminary studies, the overall revenue effect is expected to be positive but less than 100%.

Additional Background Information: In FY 2005 there was \$562 M distributed to the State Highway Fund,

and an additional \$81 M was distributed to the Local Road and Street Account.

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill will increase the amount of Sales Tax revenue that is distributed to counties, cities and towns. The Sales Tax revenue shifted to the Local Road and Street Account is required to be distributed using the formula set forth in IC 8-14-2-4. That formula requires the Auditor to distribute these funds to each county on the basis of the ratio of each county's passenger car registration to the total passenger car registration of the state. The Auditor is also required to make a suballocation to the cities and towns within the county. The suballocation formula varies depending on the population of the county.

State Agencies Affected: Department of State Revenue; Auditor of State.

Local Agencies Affected: Counties, cities, and towns.

Information Sources: *Indiana Handbook of Taxes, Revenues, and Appropriations.*

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